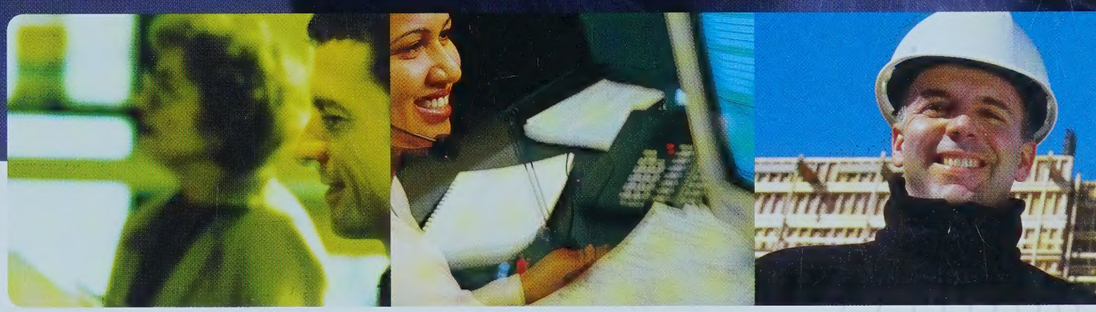
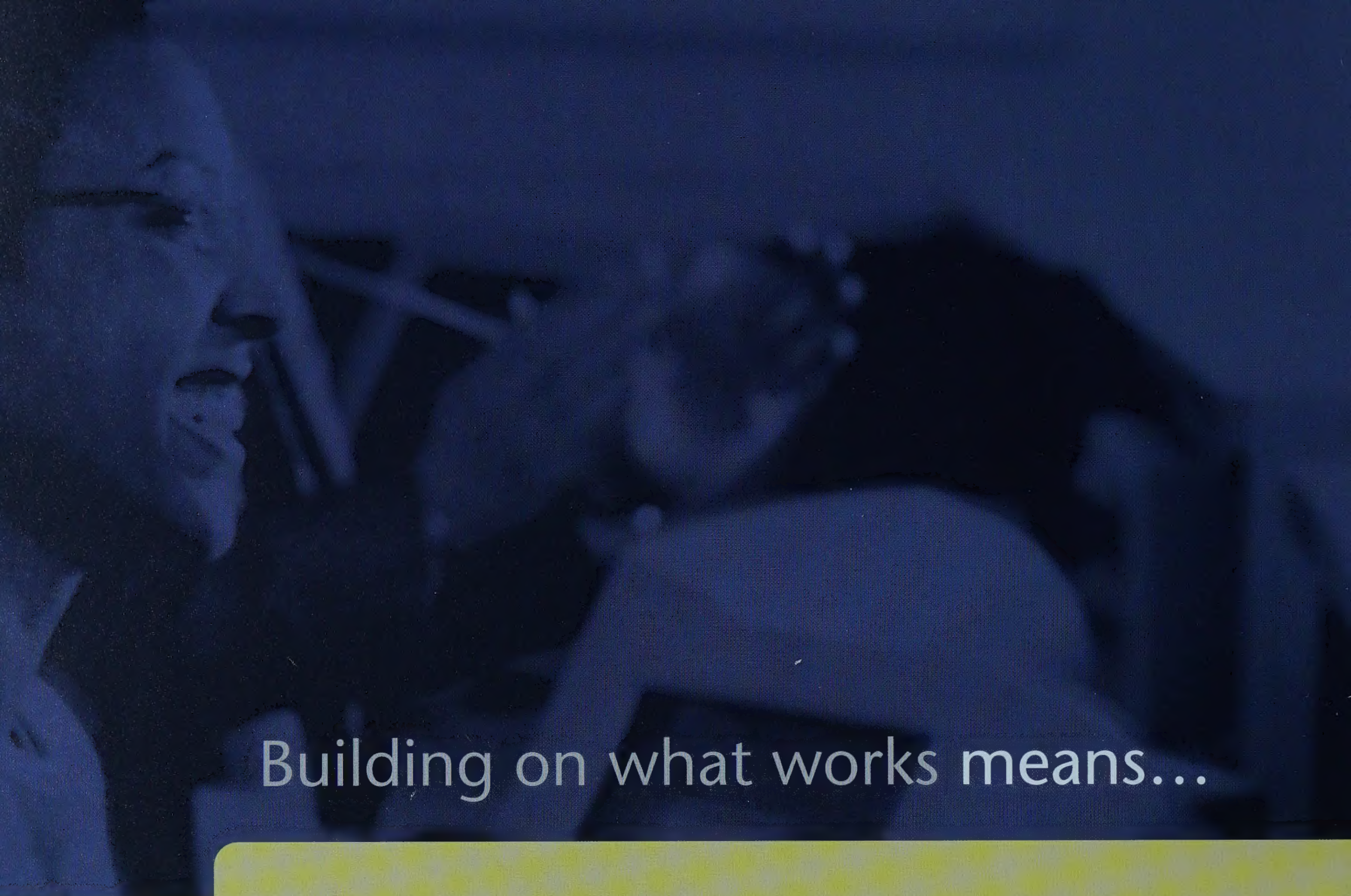
Building on What Works

2002 Annual Report



Davis + Henderson



Building on what works **means…**

>> Building on our trusted, **long-term relationships** with Canada's financial institutions (page 2).

>> Building on our **foundation** – the cheque supply program – which provides products and services, on behalf of our financial institution customers, to more than 20 million individual account holders and more than 1 million small business enterprises (page 4).

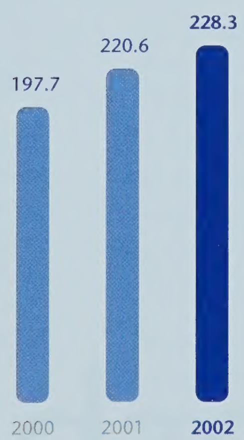
>> Building on existing capabilities to deliver **new programs** that will add value for our customers and our unitholders (page 6).

In addition to historical information, this annual report may contain forward-looking statements, subject to risks and uncertainties beyond management's control. Actual results could differ materially from those expressed in this report. Risk factors are discussed in the Annual Information Form ("AIF") filed with the Ontario Securities Commission by Davis + Henderson Income Fund and encompass unforeseen circumstances as described in the AIF.

Achieving stable and growing cash distributions.

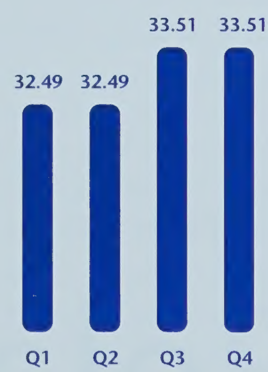
THREE-YEAR REVENUE
($millions)

A track record of growing revenues



QUARTERLY DISTRIBUTIONS
Cents per unit

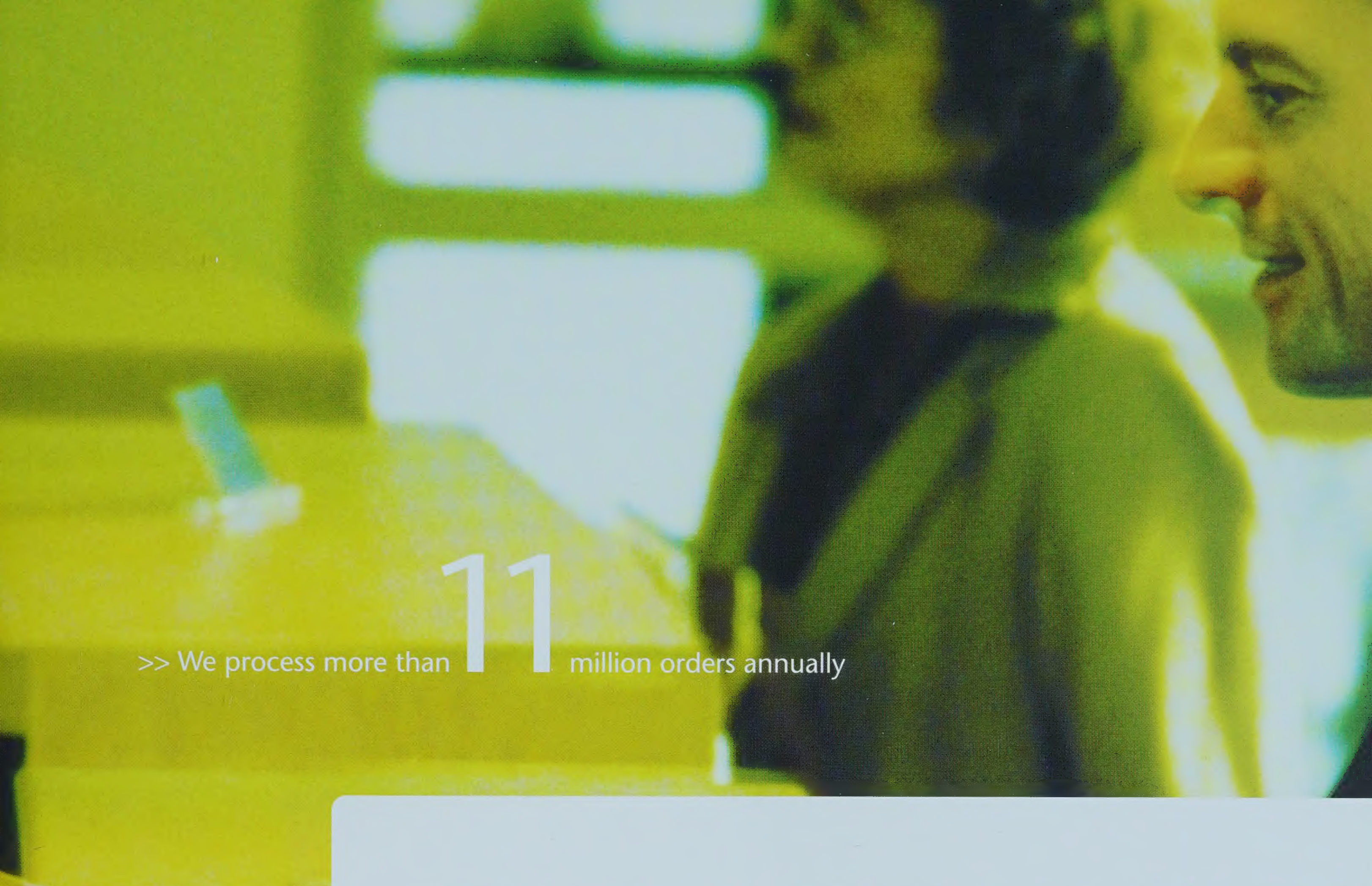
Stable and growing distributions through 2002



During 2002, Davis + Henderson Income Fund made distributions to unitholders of $1.32 per unit

For more than 125 years, Davis + Henderson has served the needs of Canada's financial institutions as a trusted provider of outsourced products and services. Trusting relationships are the base upon which our business has been built.

Building on Relationships

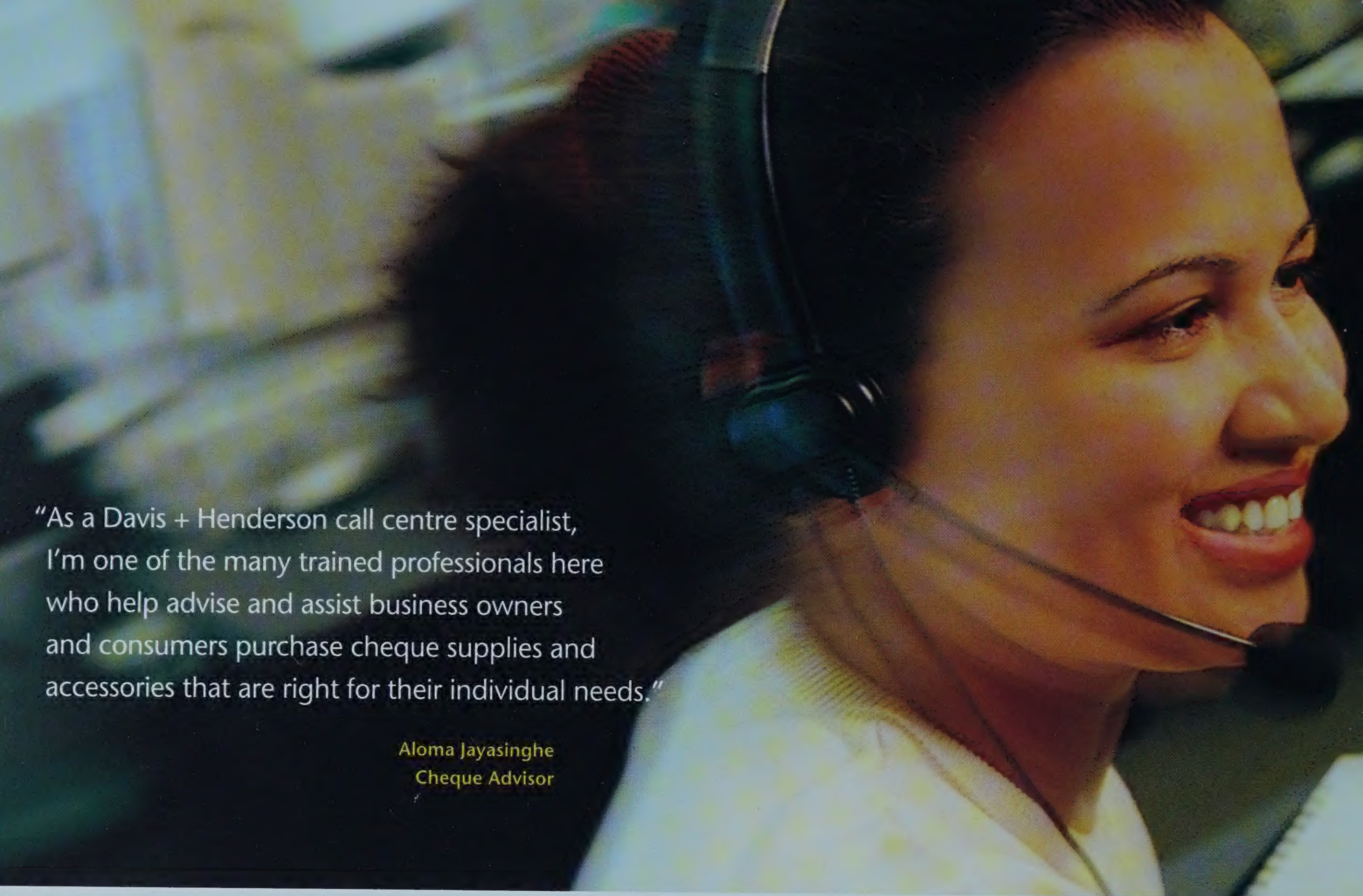


Using our intimate knowledge of consumer trends and preferences, Davis + Henderson has become the leading supplier of cheque-related programs and services to Canada's financial institutions and Canadian consumers.

Today, we are the leader in providing our specialized services to the country's banks, credit unions and caisses populaires. We are a business focused on helping financial institutions better serve their customers: 20 million individual account holders and more than 1 million small business enterprises.

Our customers generate 11 million orders annually. More than 6 million of these orders are received electronically, through our customers' branch networks, over 500,000 are received via the Internet and over 300,000 through our dedicated call centres. In fact, the daily contact we have with our customers, and our customers' customers, provides Davis + Henderson with a number of advantages. Among these are greater knowledge of market trends and preferences, and also importantly, the opportunity to introduce additional products and services. We expect these advantages will add value to Canada's financial institutions, their customers and our unitholders in the future.

Clearly, these are relationships that are working and that can be built upon for the future. Our devotion to building on relationships that work is why Davis + Henderson is the leader in its market.



"As a Davis + Henderson call centre specialist, I'm one of the many trained professionals here who help advise and assist business owners and consumers purchase cheque supplies and accessories that are right for their individual needs."

Aloma Jayasinghe
Cheque Advisor

We call the foundation of our business the "cheque supply" program. This program, provided on behalf of our financial institution customers, has made Davis + Henderson what it is today: a stable and growing business.

Building on Our Foundation

Express Yourself **is our brand name for specially-designed products – including recognized licensed designs and other accessories – that enable consumers to express their personal tastes and interests.**

But what about tomorrow? The answer is, these cheque supply programs are expected to continue to generate strong performance for our customers and our unitholders. There are several reasons why we have confidence in our cheque supply programs.

First, these programs provide us with an opportunity to introduce new and valued products, based on the changing needs and preferences of Canadians. For example, we have increased the security related to products for small businesses and, for individual consumers, we have allowed them to express themselves by choosing from a variety of designs and options.

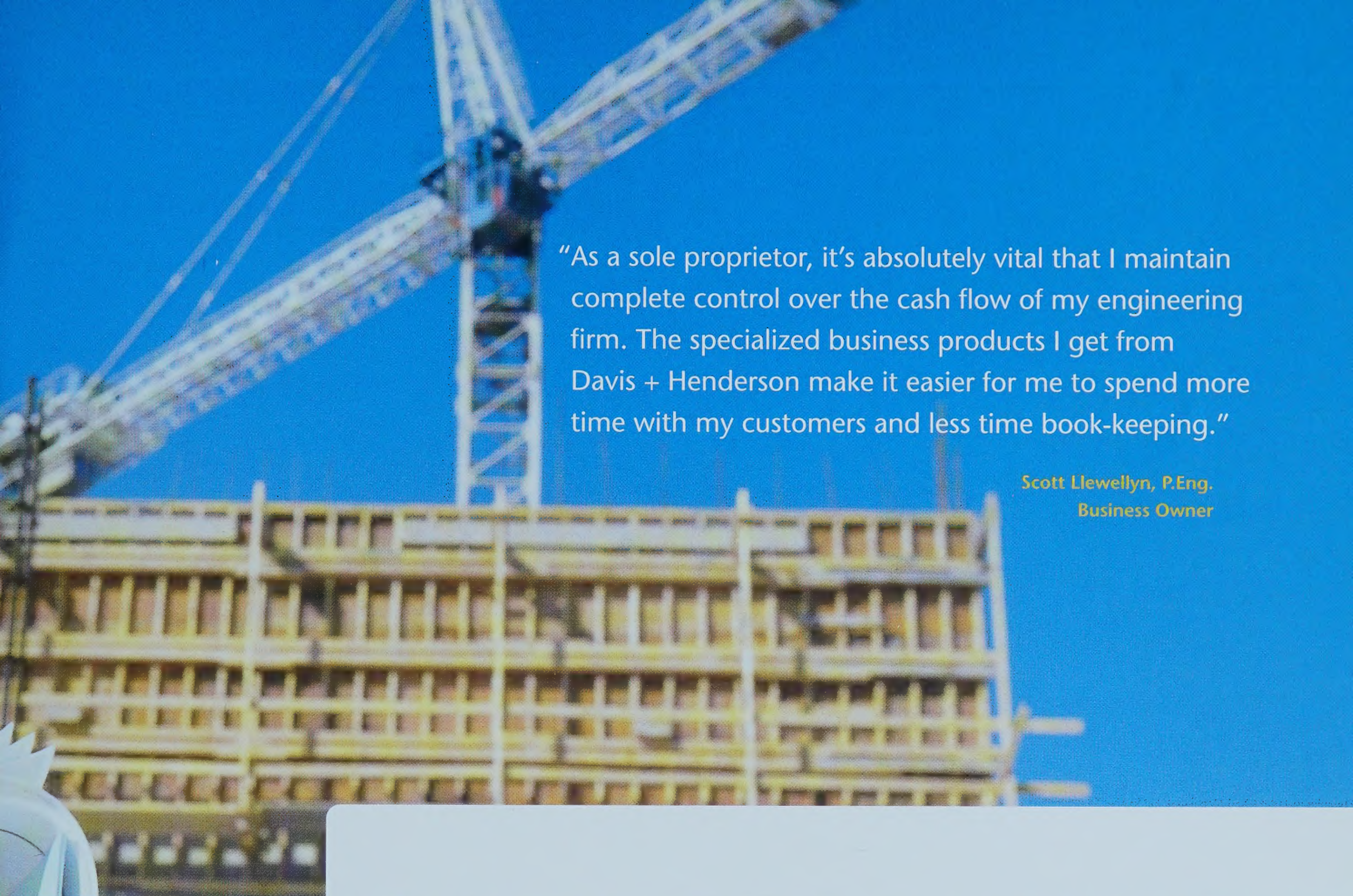
Second, increasing the value of our program also involves improving the processes and services related to the delivery of our program. In 2002, we introduced Cheque*Central* and Cheque*Advisor*. Cheque*Advisor* is a service that encourages the financial institution's customers to place orders directly with us, over the phone. Through this direct dialogue, consumers are more aware of their choices and alternatives, and our experience has shown that this direct contact is not only more effective and convenient for consumers, but provides us, on average, with higher value orders. Cheque*Central* is our new web-based, electronic catalogue for in-branch ordering. Again, this service more effectively displays and markets our expanded offerings, delivering higher order values as well as reduced cost for financial institutions and Davis + Henderson in the processing of orders.

Related to our cheque supply programs, clearly cheque usage impacts our business. But with these strategies and opportunities in place to add value, the impact is not what most people expect. Please see our Q & A discussion where we more fully describe some of the important trends in our business.

As a business foundation, our core cheque supply programs – driven by product extension and program enhancements – are important sources of value today and are a conduit to future opportunities.

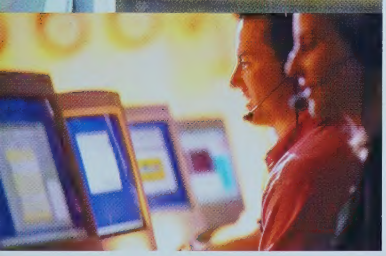
By levering the capabilities we've established to serve the cheque supply needs of the Canadian marketplace, Davis + Henderson has begun to build important bridges to the future. These capabilities include market research, product development, data management, customer contact services and personalization and fulfilment services.

Building New Programs with Existing Capabilities



"As a sole proprietor, it's absolutely vital that I maintain complete control over the cash flow of my engineering firm. The specialized business products I get from Davis + Henderson make it easier for me to spend more time with my customers and less time book-keeping."

Scott Llewellyn, P.Eng.
Business Owner



eSwitch **is now part of several of our customers' new account opening processes. It is proving to be a useful service for Canadian consumers who wish to seamlessly transfer their electronic pre-authorized payments between accounts.**

These "bridges" are valued new programs that meet the needs of financial institutions and their customers while adding to our revenue and cash flow.

For example, Davis + Henderson has recently introduced programs such as:

>> **eSwitch,** a service that enables our financial institution customers to easily move, on behalf of their customers, pre-authorized payments and direct deposits from one account to another. This program provides convenience for many financial institution customers who open new accounts. The program helps the financial institutions to further enhance the services they provide to their customers. This program levers Davis + Henderson's sophisticated data handling and call centre capabilities and increases our participation in the financial institution's account opening processes.

>> **Deposit programs for small business** help improve the convenience, security and efficiency for users and for the financial institutions. These programs, which supply deposit books and deposit bags, utilize our order processing, personalization and fulfilment capabilities and are contributing to our growth.

In the future, we intend to introduce additional new programs by linking the needs of our customers with the many strong capabilities we possess. We are strategically committed to continuing this approach going forward.

Robert Cronin
President and
Chief Operating Officer

C. Sanford McFarlane
Chief Executive Officer

Q&A

Davis + Henderson Income Fund has just finished its first full year as a Toronto Stock Exchange listed income fund (symbol DHF.UN).

Davis + Henderson is Canada's leading provider of cheque supply programs and related services for the country's financial institutions.

A mature, stable business that traces its roots to 1875, Davis + Henderson employs a team of 800 motivated, experienced and dedicated professionals including Sanford McFarlane, Chief Executive Officer, and Bob Cronin, President and Chief Operating Officer.

Here, Sanford and Bob discuss the state of the business entering 2003.

Were you satisfied with your financial performance in 2002?

Yes. Our financial goal is to deliver stable and growing cash distributions. Against this objective, we feel we had a very solid year in 2002. In addition to delivering stable distributions, we were able to increase our distributions in July to $0.1117 per month, from $0.1083 per month. That's the equivalent of increasing distributions from $1.30 per unit annually to $1.34, a 3% gain. Operationally, we met or exceeded our expectations, and the consistency of our results through the year reflects the stability of our operating model.

Your revenues continue to grow nicely, even though people are writing fewer cheques – how is that possible?

Cheque usage has been in slow decline since 1990, that's true, but our revenues have continued to grow, so there's more to our business than what you might think. To truly understand the impact cheque usage has on our business, you need to consider some background facts. First, cheque usage only affects the reordering of cheques. Approximately 50% of our revenues come from cheque reorders. The balance of revenue primarily comes from new orders, which are impacted by new account openings and not usage. Second, of our reorder revenues, approximately half come from small businesses and half come from individuals. This means that cheque usage by individuals affects approximately 25% of our revenues.

Do the individuals and the small business segments you serve view your products differently?

In fact they do. Individuals tend to use many payment products or services, including electronic payments, credit or debit card payments and pre-authorized debits, in addition to their use of cheques and cash. On the other hand, small businesses continue to use cheques as their primary payment choice, as they value highly the record keeping and control benefits that cheques provide. As well, small businesses also use many other products that we provide such as deposit books, deposit bags, business cards and payment product accessories. In all, small business customers account for just under half of our revenue, and this amount has been growing.

Are other consumer trends important to your business?

There are a couple of other factors also at work. While individuals have been using fewer cheques, many have also been ordering cheque packages that contain fewer cheques. So while they may not use cheques as often as they once did, the fact that they purchase fewer cheques each time they order tends to reduce the time between orders. As such, the impact of usage decline on orders is partially mitigated or reduced by this migration to smaller order quantities.

Additionally and significantly, we have been able to offer the financial institutions' customers more product choices, more accessories, and more valued services. This has allowed us to increase our average order value and grow our revenues.

What other ways can you grow your business?

We've been investing in new service initiatives and new capabilities over the past few years that have allowed us to both extend and expand the services we offer financial institutions and their customers. For example, we have extended our offering to small businesses to include personalized deposit books and deposit bags. In less than a year from starting our deposit bag service, we have become the market leader in this product category, while providing significant customer and unitholder value.

We also see that Canadian financial institutions are extending their businesses into the United States. We wish to support our customers in their expansion and look for initial sales from this activity beginning in early 2004.

We've also expanded our offering to include a service that allows easy switching of pre-authorized debits and credits from one account to another, an important service when a financial institution opens a new account for a valued customer.

While we focus on growing our revenues, we also continue to manage our costs. We have applied technology throughout our processes, from ordering, to production, to fulfilment, to improve the service we offer and our cost of delivering these services.

Our strategy is clear in that we plan on combining the expansion of our cheque supply programs with the introduction of new services, all to our existing customers, Canada's financial institutions.

These strategies sound reasonable. Do you require significant capital investment to carry them out?

We would say we require modest, not significant, capital as we execute our strategy. It's important to understand that the existing cheque supply programs we operate provide many key capabilities upon which new services can be offered with modest additional investment. These capabilities include electronic ordering, data management, customer contact services, and personalization and fulfilment services. We see most of our future offerings being built using one or more of these key, in-place capabilities. Overall, we clearly understand that new capital needs to contribute new cash flow. To fund this new capital, we have put in place the necessary financing facility to continue to grow the business.

What would happen to your business in the event of a bank merger?

When mergers have happened in the past, we saw new opportunities to provide services to our customers. For example, when a major bank and trust company merged in the first half of 2000, we put in place conversion programs for when branches and systems of the institutions integrated. We also put our call centre capabilities to work to help our customer communicate with their customers through the merger transition process. Our experience has shown that subsequent to the initial conversion activities, we continue to receive increased orders. We would expect the same again if a significant merger arose.

What's your outlook for 2003?

Going forward, we intend to build on what works, hence the title of this report. This means focusing on how we can increase the value of the proven services we offer Canadian financial institutions and their customers. We have long and deep relationships with our customers. We have a strong foundation upon which to build. In 2002 we put in place programs such as Cheque*Advisor*, Cheque*Central* and eSwitch. In 2003 and beyond, we will expand these service capabilities and put in place additional services as we strive to achieve our objective of delivering stable and growing cash distributions.

Any final words?

We wish to thank our employees for their dedication in delivering value to our customers and unitholders. We look forward to increasing the scope of services that we offer our customers. Our initial year as an income fund was a successful one. We look forward to many more.

Catherine Martin
Chief Financial Officer

Overview

Davis + Henderson Income Fund (the "Fund") commenced operations on December 20, 2001, when it completed an initial public offering ("IPO") and acquired a 45.4% indirect interest in Davis + Henderson, Limited Partnership ("Davis + Henderson L.P."). On January 10, 2002, under an over-allotment option, the Fund acquired an additional 4.5% interest in Davis + Henderson L.P. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. and now holds 100%.

Davis + Henderson L.P. and its predecessors have been serving Canadian financial institutions and their account holders since 1875. Prior to December 20, 2001, the Davis + Henderson business (the "Business" or the "Company") operated as a division of MDC Corporation Inc. ("MDC"). The Company's primary source of revenue and cash flow comes from the operation of cheque supply programs for Canadian financial institutions. The Company's ongoing financial strategy is to provide stable and growing distributions.

The Company's strategy to accomplish this objective involves leveraging its long-term customer relationships to extend the value of the core cheque supply programs and to expand the services offered to Canadian financial institutions and their customers. In expanding the service offerings, the business will utilize the infrastructure and capabilities used in delivering its core offering, including electronic ordering, data management, customer contact services and fulfilment capabilities.

PRESENTATION OF FINANCIAL INFORMATION

The accompanying financial statements of the Fund present the consolidated operations of the Business for the twelve-month and twelve-day period from December 20, 2001 to December 31, 2002. There are no prior period comparative financial statements of the Fund, as it completed its IPO and acquired the operating business effective December 20, 2001. See the Supplementary Financial Information provided below for selected comparative information.

Reported Financial Information

(unaudited)[1]

(in thousands of Canadian dollars)	Twelve days ended Dec. 31, 2001	Three months ended Mar. 31, 2002	Three months ended June 30, 2002	Three months ended Sept. 30, 2002	Three months ended Dec. 31, 2002	Dec. 20, 2001 to Dec. 31, 2002
Sales	$ 4,029	$ 55,862	$ 56,689	$ 56,770	$ 58,938	$ 232,288
Cost of goods sold	2,590	32,189	31,629	31,408	33,020	130,836
Gross profit	1,439	23,673	25,060	25,362	25,918	101,452
	35.7%	42.4%	44.2%	44.7%	44.0%	43.7%
Operating expenses	702	7,003	7,525	7,485	8,028	30,743
	17.4%	12.5%	13.3%	13.2%	13.6%	13.2%
Operating income	737	16,670	17,535	17,877	17,890	70,709
	18.3%	29.8%	30.9%	31.5%	30.4%	30.4%
Interest expense	124	994	1,212	1,183	1,138	4,651
Amortization	591	3,961	4,047	4,186	4,426	17,211
Income tax	17	672	690	868	1,084	3,331
Non-controlling interest	931	6,501	—	—	—	7,432
Net income for the period	$ (926)	$ 4,542	$ 11,586	$ 11,640	$ 11,242	$ 38,084
Net income per unit, basic and fully diluted	$ (0.0537)	$ 0.2396	$ 0.3055	$ 0.3070	$ 0.2964	$ 1.0948

[1] Prepared from unaudited quarterly information.

Distributable Cash by Period[1]

(unaudited)[2] (in thousands of Canadian dollars)	Twelve days ended Dec. 31, 2001	Three months ended Mar. 31, 2002	Three months ended June 30, 2002	Three months ended Sept. 30, 2002	Three months ended Dec. 31, 2002	Dec. 20, 2001 to Dec. 31, 2002
Net income for the period	$ (926)	$ 4,542	$ 11,586	$ 11,640	$ 11,242	$ 38,084
Add:						
Amortization	591	3,961	4,047	4,186	4,426	17,211
Future income tax	—	421	437	616	831	2,305
	(335)	8,924	16,070	16,442	16,499	57,600
Less:						
Maintenance capital expenditures:						
Capital and other assets	50	488	1,590	1,683	1,245	5,056
Contract payments	—	1,250	625	625	645	3,145
Distributable cash	$ (385)	$ 7,186	$ 13,855	$ 14,134	$ 14,609	$ 49,399
Distributable cash per unit	$ (0.0223)	$ 0.3791	$ 0.3654	$ 0.3727	$ 0.3853	$ 1.4801
Distributions per unit	$ 0.0427	$ 0.3249	$ 0.3249	$ 0.3351	$ 0.3351	$ 1.3627

A financial measure used in this Annual Report, namely "Distributable cash," is not an earnings measure recognized by Canadian generally accepted accounting principles. Distributable cash is determined as set out in the table above. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow as these expenditures are considered non-recurring in nature and are eligible for funding under the Company's committed term-credit facilities. Management believes that this earnings measure is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that Distributable cash should not be construed as an alternative to using net income or the statement of cash flows as measures of profitability and cash flow. Further, the Fund's method of calculating Distributable cash may not be comparable to similarly titled amounts reported by other issuers.

Prepared from unaudited quarterly financial statements.

OPERATING RESULTS

Supplementary Financial Information[1]

(unaudited) (in thousands of Canadian dollars)	Twelve months ended December 31, 2002	2001	2000
Operations			
Sales	$ 228,259	$ 220,620	$ 197,718
Gross profit[3]	100,013	94,282	78,686
Operating expense[3]	30,041	32,486[2]	23,661
Operating income	69,972	61,796[2]	55,025
Amortization	16,620	18,582	17,235
Interest expense	4,527	133	53

The enclosed financial statements of the Fund do not provide comparative information, as the Fund did not own the operating business until December 20, 2001. However, supplementary financial information related to the Business, which was operated as a division of the previous owner, is provided above and compares selected information from the twelve months ended December 31, 2002 to the same period in 2001 and 2000. In compiling the selected financial information from audited financial statements, the twelve-day period from December 20, 2001 has been included in the twelve-month period ended December 31, 2001.

[2] Operating expenses and operating income for the twelve months ended December 31, 2001 include a non-recurring restructuring provision of $6.1 million recorded by the business prior to the Fund's initial public offering.

[3] Certain of the 2000 and 2001 expenses have been reclassified between operating expenses and cost of sales to conform to current period presentation.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

For the twelve-month period ended December 31, 2002, the Company recorded sales of $228.3 million, an increase of $7.7 million, or 3.5%, over the prior year's sales of $220.6 million. The increase was attributed primarily to increases in the value of orders received as a result of the launch of new products. The Company continually seeks to increase the value of orders through adding complementary products, such as deposit books and deposit bags, and by adding value and features to traditional products, including licensed designs, holograms and personalized expressions. During 2001, the Company recorded revenues related to a significant conversion program associated with a merger of two of the Company's financial institution customers. There were no equivalent conversion programs in 2002.

For the twelve-month period ended December 31, 2002, gross profit of $100.0 million increased $5.7 million, or 6.1%, from the prior year and reflected the increase in sales described above, as well as increased efficiencies related to ordering, production and packaging automation.

Operating expense of $30.0 million for the twelve-month period ended December 31, 2002, decreased from the prior year by $2.4 million, or 7.5%. The higher operating expenses in 2001 were primarily attributable to a non-recurring restructuring provision of $6.1 million. The 2002 decrease was partially offset by incremental costs of approximately $2.3 million associated with the Fund becoming a public entity and additional expenses related to growing the customer-support centres, as part of the Company's program to have direct contact with consumers for ordering, and expenses incurred for technology to operate the Company's web-based ordering. The incremental costs related to the Fund being a public entity included capital taxes, insurance, trustee and director fees, legal fees, transfer agency fees, filing fees and investor relations costs.

Operating income of $70.0 million during the twelve-month period ended December 31, 2002 increased $8.2 million, or 13.2%, over the prior year largely due to the prior year's restructuring charge. Excluding the prior year charge, the increase in operating income was $2.1 million, or 3.1%, after the absorption of $2.3 million of expenses associated with activities related to the Fund being a public entity, as described above.

Amortization of $16.6 million for the twelve-month period ended December 31, 2002 decreased $2.0 million, or 10.6%. The decrease was attributed to payments associated with certain customer contracts having been fully amortized, partially offset by higher amortization as capital assets were deployed in the business, as described below.

Interest expense of $4.5 million for the twelve-month period ended December 31, 2002 increased $4.4 million from the previous year. The expense related to the term loan facility, drawn down December 20, 2001. The loan was outstanding for only twelve days during 2001.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Sales for the year ended 2001 were $220.6 million, an increase of $22.9 million, or 11.6%, from $197.7 million for the 2000 fiscal year. The increase was primarily a result of the full-year impact of higher order values related to the launch of new personal products, as well as new order revenue associated with the merger of two of the Company's financial institution customers. As part of the merger activities, in fiscal 2001, the Company provided replacement cheque products to the financial institution's small business customers and line of credit account holders. As well, the increase in sales was attributed to increases in the value of an average order for business products resulting from the launch of new business products.

Gross profit of $94.3 million for 2001 (43% of sales) increased by $15.6 million, or 19.8%, over fiscal 2000 gross profit of $78.7 million. The increase was primarily related to the growth in sales described above and from manufacturing efficiencies in the printing of certain Company products.

Operating expenses for 2001 were $32.5 million, an increase of $8.8 million compared to $23.7 million in 2000. This increase primarily related to non-recurring charges recorded in 2001 of $6.1 million. The primary items included in the charge were provisions for future cost reduction activity. As well, costs increased as a result of growth in technology expenses and increased customer support costs related to revenue growth, including those costs associated with the merger activity described above.

Operating income for 2001 was $61.8 million, an increase of $6.8 million, or 12.3%, over 2000.

Amortization expense for 2001 was $18.6 million, an increase of $1.3 million, or 7.8%, over the previous fiscal year. This increase was a result of asset additions made in fiscal 2000 and 2001, including the implementation of changes to the Company's technology systems to support electronic ordering, new product initiatives and the introduction of new automation to improve the efficiency of personalization, handling and sorting.

Interest expense of $0.1 million for 2001 reflected the borrowing for twelve days on the $80 million term loan facility put in place in connection with the acquisition of the Davis + Henderson business by the Fund.

CASH FLOW AND LIQUIDITY

Initial Public Offering The Fund completed an IPO on December 20, 2001, and sold 17.2 million units to the public for net proceeds of $160.4 million. These proceeds, together with the $80 million term loan provided under the Company's credit facilities, were used to purchase a 45.4% limited partnership interest in Davis + Henderson L.P. On January 10, 2002, the Fund issued an additional 1.7 million units to the public, upon the exercise of the underwriters' over-allotment option, for net proceeds to the Fund of $16.2 million. These proceeds were used to acquire an additional limited partnership interest of 4.5% in Davis + Henderson L.P. On April 2, 2002, the Fund used net proceeds from the sale of units to the public of $188.7 million to acquire the remaining partnership interest in Davis + Henderson L.P.

Cash Flow from Operations During the twelve-month and twelve-day period ended December 31, 2002; the Company generated $65.0 million in cash flow from operations, consistent with management's expectations. Additionally, the Company generated $7.6 million of cash flow from a net decrease in non-cash working capital, primarily related to reductions in receivables and improved payable terms.

Cash Used for Investments For the twelve-month and twelve-day period ended December 31, 2002, the Company had capital disbursements of $12.7 million, of which $8.2 million is considered maintenance and $4.5 million is considered non-maintenance. Included in these amounts were committed payments in respect of the Company's financial institution customer contracts of $5.0 million, of which $1.9 million is considered non-maintenance and relates to contract extensions. Maintenance expenditures were primarily directed towards systems development, including the development and deployment of web-based ordering systems and the acquisition of computer hardware and software. Non-maintenance capital expenditures, which are classified as non-maintenance on the basis that they are considered non-recurring, were made to acquire two digital printing devices and for systems development in respect of the United States expansion initiative. As at December 31, 2002, the Company had not drawn upon any of its $18 million capital expenditure credit facility, which is available to fund the historic and future non-maintenance capital items.

Distributions The Fund declared distributions of $44.6 million during the twelve-month and twelve-day period ended December 31, 2002. Actual cash distribution payments during this period were $40.4 million. The December 2002 declared distributions of $4.2 million was paid on January 31, 2003. During the first quarter of 2002, Davis + Henderson L.P. recorded distributions to MDC of $7.4 million. Such payments to MDC were expensed by the Fund as distributions to non-controlling interests. No payments were made to MDC subsequent to April 2, 2002 upon the acquisition of the remaining interest in Davis + Henderson L.P. by the Fund.

Consolidated cash and cash equivalents as at December 31, 2002 increased $12.0 million through the twelve-month and twelve-day period ended December 31, 2002 as cash flow from operating activities exceeded capital expenditures and distributions. During the fourth quarter, the Company cancelled its $10 million revolving credit facility, as it did not anticipate requiring its availability.

Cash flow from operations together with cash balances on hand and unutilized term credit facilities are expected to be sufficient to fund the Company's operating requirements, capital expenditures and anticipated distributions.

BUSINESS RISK

The following describes certain risks, events and uncertainties that could cause the reported financial information to not necessarily be indicative of future operating results. For a more comprehensive discussion of these and other risks, please refer to the Fund's most recently filed Annual Information Form.

Reliance on Contracts with Financial Institution Customers Davis + Henderson L. P. is dependent upon certain significant financial institutions in providing services for their account holders. Services and products provided to Davis + Henderson's six major financial institution customers accounted for approximately 69% of the Company's 2002 revenue.

The contracts with financial institution customers are typically for terms ranging from two to five years. During 2002, the Company renewed and extended two of its contracts with major financial institutions on terms no less favourable than those then in effect prior to extension.

Consolidation in the financial institution industry could affect revenues from cheque supply outsourcing programs. Margins on cheque orders obtained through financial institutions could be pressured as those financial institutions seek their own merger synergies. Typically, upon the merger of branches and systems in a bank combination, the Company has historically assisted the merging banks by supplying replacement cheque product as well as additional services as part of a conversion program.

Competition from Substitute Products Banking and related industries have introduced alternatives to paper-based payment products such as automated teller machines, pre-authorized debits, credit cards, debit cards, and electronic payment systems, such as telephone and Internet payment systems. Additional forms of alternative payment methods, including e-commerce and software programs, are being developed continually and may also compete with the products and services offered by Davis + Henderson L.P. Use of these payment alternatives as a replacement for cheques negatively affects the number of cheques written and can affect the number of cheque package reorders which the Company receives.

Approximately 50% of the Company's revenues are related to reorders and are, therefore, affected by cheque usage. The balance of the Company's revenues are derived from either new orders or other products unaffected by cheque usage. Approximately 24% of the Company's revenues are related to reorders for cheques on personal chequing

accounts and 26% of revenues are for business cheque reorders on current accounts. The Company believes that the adoption of alternative payment methods has primarily affected personal cheque reorders, and business cheque reorders to a less significant degree. Management believes this occurs as businesses prefer utilizing cheques for managing, controlling and tracking cash flow, whereas individuals often choose payment alternatives based upon convenience. A mitigating trend affecting the number of reorders the Company receives from individuals has been the migration to order quantities which have a fewer number of cheques in a package. While reduced cheque usage lengthens the reorder cycle, migration to cheque packages containing fewer cheques reduces the reorder cycle.

Competition from Competitors Supplying Similar Products and Services Some of Davis + Henderson L.P.'s competitors (particularly those in the United States) have economic resources greater than those of Davis + Henderson L.P. and are well-established suppliers.

Davis + Henderson L.P. looks to continually strengthen its leading position in the market segments in which it competes. The Company seeks to achieve this objective by extending both the services it offers and the value of the related products. In 2002, the Company launched the Cheque*Advisor* program that more effectively processes reorders directly with the financial institutions' customers. With direct contact, the institutions' customers are more conveniently serviced and consumers are made more aware of the choices and alternatives they have related to cheques, deposits and accessories. During 2002, the Company also launched, with certain customers, a branch-based web ordering system. This system allows financial institutions to more conveniently and quickly process orders.

Development of Product and Service Options Davis + Henderson L.P.'s ability to continue to generate comparable net income and cash flow is based, in part, on the addition of new products and services which could be sold to existing financial institution customers of the Company. The Company seeks to add new products and services by leveraging its core capabilities, including electronic order processing, data management, customer contact service and fulfilment capabilities.

During 2002, two programs were introduced or expanded for our financial institution customers and their customers including: eSwitch, a service that enables the institution's customers to easily move pre-authorized payments between accounts; and the supply to small businesses of deposit and related products.

Leverage Davis + Henderson L.P. has debt service obligations under its credit facilities that mature and are fully repayable on December 20, 2004. As at December 31, 2002, the Company had drawn $80 million of its term facility and may draw an additional $18 million in the future to fund certain planned capital expenditures.

The Company continuously re-examines its financial strategy with the intent of reducing refinancing risk. With respect to interest rate risk, as discussed in more detail in Note 9 to the financial statements, the Company has hedged 60% of the total debt currently outstanding for periods of approximately one, two and three years. A change of 100 basis points in short-term interest rates would, assuming current debt levels, change interest expense by approximately $0.3 million per year.

OUTLOOK

Based on Davis + Henderson L.P.'s targeted objectives of 3% to 5% annual sales growth and the maintenance of operating margins and capital spending for maintenance capital at current levels, the Fund's objective is to grow distributions to unitholders. On March 3, 2003, the Fund announced its intention to increase the monthly distribution to unitholders, subject to compliance with legal requirements. The April 2003 distribution is expected to increase to $0.1133 per unit (equivalent to $1.36 per unit annualized) compared to the current level, including anticipated March distributions, of $0.1117 per unit (equivalent to $1.34 per unit annualized). This increase follows the July 2002 increase in the monthly distributions to an annual equivalent of $1.34 per unit, up from the initial monthly distribution of an annual equivalent of $1.30 per unit paid from the IPO of December 20, 2001 to June 2002.

The Company's capital program provides for continuing annual maintenance expenditures funded from cash flow from operations. Non-maintenance expenditures over and above this are expected to total approximately $18 million, including the expenditures incurred over the past year as well as anticipated expenditures over the next two to three years. The Company will invest strategically to undertake new service initiatives, to serve Canadian financial institutions operating in the United States, to make committed contract extension payments and to increase plant automation to better serve our customers and improve efficiency. A committed capital expenditure credit facility is currently available to fund these outlays.

Certain information included in this report is forward looking and based upon assumptions and anticipated results that are subject to risks and uncertainties associated with Davis + Henderson L.P.'s business and the economic environment in which the business operates. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. Risks and uncertainties are discussed in detail in the Fund's most recently filed Annual Information Form.

Financial Reporting Responsibility of Management

The accompanying consolidated financial statements for Davis + Henderson Income Fund (the "Fund") have been prepared by management of Davis + Henderson, Limited Partnership ("Davis + Henderson L.P.") and approved by the Board of Directors of Davis + Henderson G.P. Inc. and by the Trustees of the Fund. Management is responsible for the preparation and presentation of these financial statements and all the financial information contained within this annual report within reasonable limits of materiality. The Fund's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. The financial information throughout the text of this annual report is consistent with that in the financial statements.

To assist management in discharging these responsibilities, Davis + Henderson L.P. maintains a system of internal controls which are designed to provide reasonable assurance that the Fund's consolidated assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information.

Management recognizes its responsibilities for conducting the Davis + Henderson L.P. affairs in compliance with established financial standards and applicable laws, and for the maintenance of proper standards of conduct in its activities.

BDO Dunwoody LLP, Chartered Accountants, are appointed by the unitholders and have audited the consolidated financial statements of the Fund in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Fund.

The Board of Directors of Davis + Henderson G.P. Inc. has appointed an Audit Committee composed of three directors who are not members of management. The Audit Committee meets periodically with management and the auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. It is responsible for reviewing the annual and interim consolidated financial statements and the report of the auditors. The Audit Committee reports the results of such review to the Board of Directors and makes recommendations with respect to the appointment of the Fund's auditors. In addition, the Board of Directors may refer to the Audit Committee on other matters and questions relating to the financial position of the Fund and its subsidiaries.

The Board of Directors of Davis + Henderson G.P. Inc. and the Trustees of the Fund are responsible for ensuring that management of Davis + Henderson L.P. fulfills its responsibilities for financial reporting and are responsible for approving the consolidated financial statements of Davis + Henderson Income Fund.

C. Sanford McFarlane
Chief Executive Officer
Davis + Henderson G.P. Inc.
January 31, 2003

Robert Cronin
President and Chief Operating Officer
Davis + Henderson G.P. Inc.

Catherine Martin
Chief Financial Officer
Davis + Henderson G.P. Inc.

Auditors' Report

To the Unitholders of Davis + Henderson Income Fund:

We have audited the consolidated balance sheet of Davis + Henderson Income Fund as at December 31, 2002 and the consolidated statements of income and unitholders' equity, and cash flows for the period then ended. These financial statements are the responsibility of the management of Davis + Henderson, Limited Partnership on behalf of the Trustees of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

BDO Dunwoody LLP
Chartered Accountants
Toronto, Ontario
January 31, 2003

Consolidated Balance Sheet

(in thousands of Canadian dollars)

	As at December 31, 2002
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 12,046
Accounts receivable	7,943
Inventory	6,866
Prepaid expenses	1,333
	28,188
Future income taxes (note 3)	35,298
Capital assets (note 4)	26,413
Other assets (note 5)	13,201
Intangible assets (note 6)	13,920
Goodwill (note 2)	359,385
	$ 476,405
LIABILITIES AND UNITHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable and accrued liabilities	$ 24,047
Current portion of disbursement obligations on customer contracts (note 7)	4,495
Distributions payable to unitholders	4,236
	32,778
Disbursement obligations on customer contracts (note 7)	3,500
Obligations relating to employee future benefits (note 8)	1,289
Long-term indebtedness (note 9)	80,000
	117,567
Unitholders' equity	358,838
	$ 476,405

The accompanying notes are an integral part of these financial statements.

Paul Damp
Trustee

Allan Gotlieb
Trustee

Brad Nullmeyer
Trustee

Consolidated Statement of Income and Unitholders' Equity

(in thousands of Canadian dollars except per unit amounts)

	For the period December 20, 2001 to December 31, 2002
Sales	$ 232,288
Cost of goods sold	130,836
Gross profit	101,452
Operating expenses	30,743
Operating income	70,709
Interest expense	4,651
Amortization expense	17,211
Income before income taxes and non-controlling interest	48,847
Income taxes (note 3):	
Current	1,026
Future	2,305
	3,331
Income before non-controlling interest	45,516
Non-controlling interest (note 1)	7,432
Net income for the period	38,084
Unitholders' equity, beginning of period	—
Net proceeds from issuance of trust units (note 10)	365,385
Distributions paid and accrued to unitholders (notes 11 & 12)	(44,631)
Unitholders' equity, end of year	$ 358,838
Net income per unit,	
Basic and fully diluted	$ 1.0948

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

(in thousands of Canadian dollars)

	For the period December 20, 2001 to December 31, 2002
Cash and cash equivalents provided by (used in):	
OPERATING ACTIVITIES	
Net income	$ 38,084
Add:	
Amortization expense	17,211
Non-controlling interest	7,432
Future income taxes	2,305
Cash flow from operations	65,032
Changes in non-cash working capital items	7,569
	72,601
FINANCING ACTIVITIES	
Gross proceeds from issuance of trust units	388,691
Issuance costs	(23,306)
Proceeds from long-term indebtedness	80,000
Distributions paid to public unitholders	(40,395)
Distributions paid to non-controlling interest	(7,432)
	397,558
INVESTING ACTIVITIES	
Expenditures on capital and other assets	(12,679)
Acquisition of business (note 2)	(445,434)
	(458,113)
Increase in cash and cash equivalents for the period	12,046
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	$ 12,046
Supplementary information:	
Cash paid for interest	$ 4,882
Cash paid for income taxes	$ 1,014

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts)

NATURE OF BUSINESS

Davis + Henderson Income Fund (the "Fund") is a limited purpose trust, formed under the laws of the Province of Ontario by declaration of trust dated November 6, 2001. The Fund was formed to indirectly acquire the partnership units of Davis + Henderson, Limited Partnership ("Davis + Henderson L.P.").

Davis + Henderson L.P. is engaged primarily in the cheque supply outsourcing business for financial institutions in Canada. Davis + Henderson L.P. commenced operations on December 20, 2001, when it acquired the Davis + Henderson business (the "Business" or the "Company"). Simultaneously on December 20, 2001, the Fund completed an initial public offering and acquired a 45.4% interest in Davis + Henderson L.P. On January 10, 2002, under an over-allotment option, the Fund acquired an additional 4.5% interest in Davis + Henderson L.P. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. and now holds 100% of the Business.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared following accounting policies generally accepted in Canada. The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and sales and expenses during the reporting period. Actual results could differ from these estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund, its wholly owned subsidiaries, D + H Holdings Corp. ("D + H Holdings"), Davis + Henderson G.P. Inc., and Davis + Henderson L.P. All inter-company transactions and accounts have been eliminated upon consolidation.

Financial Instruments

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, disbursement obligations on customer contracts, interest-rate swaps and long-term indebtedness. The Fund does not enter into financial instruments for trading or speculative purposes.

Credit Risk The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and interest-rate swaps. The Fund, in its normal course of business, is exposed to credit risk from the customers of the Company. The Company is exposed to credit loss in the event of non-performance by counterparties to the interest-rate swaps but does not anticipate non-performance by these counterparties. Concentrations of credit risk with respect to accounts receivable are limited due to the credit rating of customers serviced by the Company and the generally short payment terms.

Fair Value The fair value of indebtedness that bears interest at fixed rates is based on discounted future cash flows using rates currently available for debt of similar terms and maturities. The carrying value of other financial instruments, cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and disbursement obligations on customer contracts approximates fair value due to their short-term maturities. Unrealized gains or losses on hedging instruments are not recognized in the statement of operations until completion of the hedged transaction.

Derivative Financial Instruments Derivative financial instruments are utilized to reduce interest-rate risk on the Company's debt. The Company's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Company believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity, the (notional) principal amount and the interest rate basis in the instruments all match the terms of the debt instrument being hedged.

Interest-rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The Interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expenses on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

In the event of a termination of an interest-rate swap agreement, gains and losses would be deferred under other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishments of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of income at the time of extinguishment.

Cash and Cash Equivalents

All temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

The Fund and its subsidiaries maintain cash balances in bank deposit accounts or investments in amounts that exceed federally insured limits. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

Inventory

Inventory is stated at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Capital Assets

Capital assets are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

Computer, furniture and fixtures	10% to 30% declining balance
Machinery and equipment	10% to 20% declining balance
Leasehold improvements	straight-line over term of the lease

Deferred Charges

The Company capitalizes direct costs related to the development of new products and services until the commencement of commercial operation, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

Payments associated with certain major customer contracts are amortized over the term of the related long-term supply contracts.

Goodwill

Goodwill reflects the price paid for the Business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. In accordance with the recommendations of the CICA Handbook Section 3062, goodwill is not amortized but will be tested for impairment annually.

Intangible Assets

Intangible assets represent the fair market value of rights related to the cheque supply outsourcing contracts obtained by the Fund upon the acquisition of the Business. Intangible assets are amortized over seven years. The carrying value of the intangible assets will be tested for impairment annually.

Revenue Recognition

Revenue is recognized when the service is completed and/or the product is shipped.

Non-Controlling Interest

MDC Corporation Inc.'s interest during the first quarter in Davis + Henderson L.P. has been recorded in the accompanying financial statements as a non-controlling interest, and amounts equal to its distribution entitlement have been expensed.

Net Income Per Unit

Consistent with the manner in which distributions are paid, net income per trust unit is calculated monthly based on the number of trust units outstanding on each record date. Net income per trust unit presented is the sum of the monthly earnings per trust unit for the reporting period.

Distributions Per Unit

Distributions per unit are monthly cash distributions declared by the Fund for each outstanding trust unit. Per unit balances presented for the period represent the cash distribution entitlement of a single unit that was outstanding throughout the period.

Foreign Currency Translation

Foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the period end. Other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction. Revenue and expense items are translated at the average monthly rate of exchange for the period, except for amortization of capital and other assets, which are translated at the historical rates of the related assets.

Future Income Taxes

Future income taxes of the Fund's subsidiary are determined using the liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(in thousands of Canadian dollars except unit and per unit amounts)

Employee Future Benefits

The Company provides certain post-retirement benefits for certain employees, which are not funded. These benefits include health care, life insurance and dental benefits. Obligations under the post-retirement benefit plan are actuarially determined and are accrued by the Company.

For the Company's defined contribution pension plan, annual pension expense is based on the Company's contribution to the plan.

2. ACQUISITION

Effective December 20, 2001, the Fund acquired a 45.4% interest in Davis + Henderson L.P. An over-allotment option was exercised by the Fund's underwriters effective January 10, 2002, and an additional 4.5% interest in Davis + Henderson L.P. was acquired by the Fund. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. As a result of these transactions, effective April 2, 2002, the Fund owned indirectly 100% of the outstanding partnership units of Davis + Henderson L.P. The acquisitions of partnership units were accounted for by the purchase method of accounting, and the results of the partnership were consolidated from the date of the initial acquisition of December 20, 2001. The assets acquired and consideration given were as follows:

Assets acquired, at fair value:	
Assets, gross	$ 81,730
Liabilities, gross	33,284
Net assets acquired, at fair value	48,446
Future income tax assets acquired	37,603
Goodwill	359,385
Total	$ 445,434
Consideration:	
Net proceeds from issuance of trust units	$ 365,385
Proceeds from term loan	80,000
Other acquisition related adjustments	49
Total	$ 445,434

3. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for the Fund's subsidiary, D + H Holdings, as this subsidiary is subject to tax, including large corporation taxes.

The provision for income taxes in the consolidated statement of income and unitholders' equity represents an effective rate different from the Canadian statutory rate of 38.10%. The differences are as follows:

	For the period December 20, 2001 to December 31, 2002
Income before income taxes and non-controlling interest	$ 48,847
Income of the Fund subject to tax in the hands of recipient	41,622
Income of subsidiary company	7,225
Canadian statutory rate	38.10%
Income taxes at statutory rate	2,753
Increase (decrease) resulting from:	
Manufacturing and processing tax credit	(209)
Large corporation tax	1,026
Net tax effect of expenses that are deductible for income tax purposes	(239)
Income tax expense, current and future	$ 3,331

The tax effect of temporary differences of the Fund's subsidiaries that give rise to significant portions of the future income tax assets as at December 31, 2002 are presented below:

	December 31, 2002
Future income tax assets:	
Goodwill	$ 32,705
Capital assets	2,508
Other	85
	$ 35,298

4. CAPITAL ASSETS

	December 31, 2002		
	Cost	Accumulated amortization	Net
Computer, furniture and fixtures	$ 19,523	$ 5,745	$ 13,778
Machinery and equipment	11,057	1,235	9,822
Leasehold improvements	3,646	833	2,813
	$ 34,226	$ 7,813	$ 26,413

Notes to Consolidated Financial Statements *continued*

(in thousands of Canadian dollars except unit and per unit amounts)

5. OTHER ASSETS

	December 31, 2002		
	Cost	Accumulated amortization	Net
Long-term supply contracts	$ 17,242	$ 5,264	$ 11,978
Deferred charges and other	2,949	1,726	1,223
	$ 20,191	$ 6,990	$ 13,201

6. INTANGIBLE ASSETS

	December 31, 2002		
	Cost	Accumulated amortization	Net
Intangible assets	$ 16,328	$ 2,408	$ 13,920

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	December 31, 2002
Current portion	$ 4,495
Long-term portion	3,500
Total disbursement obligations on customer contracts	$ 7,995

Davis + Henderson L.P. has customer contract disbursement obligations payable as follows:

2003	$ 4,495
2004	2,375
2005	1,125
	$ 7,995

8. EMPLOYEE FUTURE BENEFITS

The Company's principal pension plan is the "Defined Contribution Pension Plan for the Employees of Davis + Henderson," a defined contribution pension plan that provides pensions to substantially all employees with greater than two years of service. Total expense for the Company's defined contribution pension plan for the period ended December 31, 2002 was $0.9 million.

The Company is currently in the process of merging two defined benefit pension plans, acquired prior to the purchase of the Business, with its defined contribution pension plan. The purpose of the proposed merger is to consolidate the pension entitlements for the employees of Davis + Henderson under one pension plan. Another defined benefit pension plan acquired during the purchase is in the process of being wound up. Employees under all three defined benefit pension plans ceased to accrue benefits prior to the acquisition of the Business and all became members of the Company's defined contribution pension plan. The assets of these three defined benefit pension plans are currently sufficient to cover the actuarial liabilities of the plans.

In addition to the Company's pension plans, the Company also provides certain health care, life insurance and dental benefits to certain employees under a non-pension post-retirement benefit plan.

Information about the three defined benefit pension plans and the Company's non-pension post-retirement benefit plan is as follows:

	For the period December 20, 2001 to December 31, 2002	
	Defined Benefit Pension Plans	Post-Retirement Benefit Plan
Accrued benefit obligations		
Balance, December 20, 2001	$ —	$ —
Acquisitions	6,386	1,238
Service cost – benefits earned	—	47
Actuarial loss	111	
Interest cost	316	81
Benefits paid	(1,215)	(77)
Balance at end of year	5,598	1,289
Plan assets		
Fair value of plan assets, December 20, 2001	—	—
Acquisitions	7,275	
Actual return on plan assets	(295)	—
Benefits paid	(1,215)	—
Fair value at end of year	5,765	—
Accrued benefit asset (liability)		
Plan surplus (deficit)	167	(1,289)
Unamortized transitional asset	(830)	—
Unamortized net actuarial loss	476	—
Accrued benefit asset (liability)	(187)	(1,289)
Company expense		
Service cost – benefits earned	—	47
Interest cost	316	81
Expected return on plan assets	(70)	—
Amortization of transitional asset	(59)	—
Net benefit plan expense	$ 187	$ 128
Actuarial assumptions		
Discount rate	6.50%	6.75%
Expected long-term rate of return on plan assets	6.50%	—

(in thousands of Canadian dollars except unit and per unit amounts)

9. LONG-TERM INDEBTEDNESS

The Company has a $98 million non-amortizing term facility due December 20, 2004. As at December 31, 2002, the Company had drawn $80 million of the term facility. The facility bears interest at rates which depend on certain financial ratios of the Company and vary in accordance with borrowing rates in Canada and the United States. The credit facility, including any hedge contracts with the lenders, is secured in first priority by a pledge of substantially all of the Company's assets and by a pledge of the Fund's indirect ownership interests in the Company.

As of December 31, 2002, the Company has entered into interest-rate swap hedge contracts with one of its lenders, such that the borrowing rates on $48 million of its term indebtedness is effectively fixed at interest rates of between 6.12% and 7.33% per annum for terms ending between March 15, 2004 and March 27, 2006. On December 15, 2004, either party has the option to terminate any swaps outstanding as at that date. The balance of the term indebtedness is subject to interest on a floating-rate basis. As of December 31, 2002, the fair value of outstanding interest-rate swaps was approximately $1.4 million, which the Company would be required to pay if it were to close out the contracts.

10. TRUST UNITS

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Trust unit transactions during the period were as follows:

	Number of units	Gross proceeds	Issuance costs	Net proceeds
Initial issuance of trust units, December 20, 2001	17,235,000	$ 172,350	$ 11,910	$ 160,440
Units issued January 10, 2002	1,720,000	17,200	989	16,211
Units issued April 2, 2002	18,965,792	199,141	10,407	188,734
	37,920,792	$ 388,691	$ 23,306	$ 365,385

11. DISTRIBUTABLE CASH

The Fund distributes its cash each month excluding any reserve deemed prudent by the Trustees of the Fund and by the Board of Directors of Davis + Henderson G.P. Inc. Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period, adjusted to remove non-cash expenses including amortization and future income taxes and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow

as these expenditures are eligible for funding under the Company's committed term-credit facilities. Distributable cash for the period ended December 31, 2002 was calculated as follows:

	For the period December 20, 2001 to December 31, 2002
Net income	$ 38,084
Add:	
Amortization	17,211
Non-controlling interest	7,432
Future income taxes	2,305
	65,032
Less:	
Distributions to non-controlling interest	7,432
Maintenance capital expenditures:	
Capital and other assets	5,056
Contract payments	3,145
Distributable cash	$ 49,399
Distributions, paid or payable	$ 44,631
Distributable cash per unit	$ 1.4801
Distributions per unit	$ 1.3627

12. DISTRIBUTIONS TO UNITHOLDERS

The Fund announced distributions during the period December 20, 2001 to December 31, 2002 as follows:

Unitholder record date	Total	Per unit	Paid or payable
December 31, 2001 (12 days)	$ 735	$ 0.0427	Jan. 31, 02
January 31, 2002	2,053	0.1083	Feb. 28, 02
February 28, 2002	2,053	0.1083	Mar. 28, 02
March 28, 2002	2,053	0.1083	April 30, 02
April 30, 2002	4,107	0.1083	May 31, 02
May 31, 2002	4,107	0.1083	June 28, 02
June 28, 2002	4,107	0.1083	July 31, 02
July 31, 2002	4,236	0.1117	Aug. 30, 02
August 30, 2002	4,236	0.1117	Sept. 30, 02
September 30, 2002	4,236	0.1117	Oct. 31, 02
October 31, 2002	4,236	0.1117	Nov. 29, 02
November 29, 2002	4,236	0.1117	Dec. 31, 02
December 31, 2002	4,236	0.1117	Jan. 31, 03
Total distributions for the period	$ 44,631	$ 1.3627	

(in thousands of Canadian dollars except unit and per unit amounts)

The distributions declared have the following tax allocations:

	Amount	Amount per unit	Percent
Dividend income	$ 7,536	$ 0.2302	16.9%
Interest income	31,918	0.9742	71.5%
Return of capital	5,177	0.1583	11.6%
Total distributions for the period	$ 44,631	$ 1.3627	100.0%

Return of capital represents issuance costs incurred by the Fund, which are deductible for tax purposes on a straight-line basis over five years.

13. COMMITMENTS

As of December 31, 2002, the Company has annual lease obligations with respect to real estate, vehicles and equipment as follows:

2003	$ 3,206
2004	2,928
2005	2,344
2006	1,188
2007	521
Thereafter	1,094
	$ 11,281

14. SIGNIFICANT CUSTOMERS

Distributions by the Fund are dependent upon receipt of cash flow distributed from the operating entity, Davis + Henderson L.P. In turn, Davis + Henderson L.P.'s cash flow is dependent upon, among other things, providing services to financial institutions and their account holders. Services and products provided by the Davis + Henderson business to its six largest customers accounted for approximately 69% of its 2002 sales.

Supplementary Pro Forma Financial Information – Distributable Cash by Period

(see notes below)

($000s except per unit amounts, unaudited)	Twelve days ended December 31, 2001 (pro forma)	Three months ended March 31, 2002 (pro forma)	Three months ended June 30, 2002 (reported)	Three months ended September 30, 2002 (reported)	Three months ended December 31, 2002 (reported)	December 20, 2001 to December 31, 2002 (pro forma)
Sales	$ 4,029	$ 55,862	$ 56,689	$ 56,770	$ 58,938	$ 232,288
Cost of goods sold	2,590	32,189	31,629	31,408	33,020	130,836
Operating expenses	702	7,003	7,525	7,485	8,028	30,743
Operating income	737	16,670	17,535	17,877	17,890	70,709
Interest expense	124	994	1,212	1,183	1,138	4,651
Amortization and income taxes	608	4,633	4,737	5,054	5,510	20,542
Net income for the period	5	11,043	11,586	11,640	11,242	45,516
Add:						
Amortization	591	3,961	4,047	4,186	4,426	17,211
Future income taxes	—	421	437	616	831	2,305
	596	15,425	16,070	16,442	16,499	65,032
Less:						
Maintenance capital expenditures:						
Capital and other assets	50	488	1,590	1,683	1,245	5,056
Contract payments	—	1,250	625	625	645	3,145
Distributable cash (note 2)	$ 546	$ 13,687	$ 13,855	$ 14,134	$ 14,609	$ 56,831
Distributable cash per unit	$ 0.0144	$ 0.3609	$ 0.3654	$ 0.3727	$ 0.3853	$ 1.4987
Distributions per unit	$ 0.0427	$ 0.3249	$ 0.3249	$ 0.3351	$ 0.3351	$ 1.3627
Net income per unit, basic and fully diluted	$ 0.0001	$ 0.2912	$ 0.3055	$ 0.3070	$ 0.2964	$ 1.2003

Note 1: The above information sets forth unaudited quarterly information and has been prepared on a pro forma basis as if the Davis + Henderson business was 100% owned by Davis + Henderson Income Fund since December 20, 2001 (as compared to 45.4% and 49.9% ownership for the period ending December 31, 2001, and March 31, 2002, respectively). The pro forma balances presented for the twelve-day period ending December 31, 2001 and for the three-month period ending March 31, 2002 are based on the actual statements of the Fund adjusted to remove the expense related to distributions paid to the non-controlling owner and to increase the number of units outstanding to 37,920,792 as at December 20, 2001 (versus the 17,235,000 units outstanding from December 20, 2001 to January 9, 2002, 18,955,000 units outstanding from January 10, 2002 to April 1, 2002, and 37,920,792 units outstanding from April 2, 2002 to December 31, 2002).

Note 2: Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period adjusted to remove non-cash expenses including amortization and future income taxes and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash as these expenditures are eligible for funding under the Company's committed term-credit facilities.

Supplementary Information – Condensed Balance Sheet

($000s, unaudited)	December 31, 2001	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Cash and cash equivalents	$ 8,730	$ 8,429	$ 11,203	$ 11,876	$ 12,046
Other current assets	15,972	17,256	14,749	15,775	16,142
Future income taxes	20,789	20,368	19,931	19,315	35,298
Capital and other assets	45,175	43,853	42,981	41,196	39,614
Goodwill and other intangible assets	188,124	204,387	392,948	392,365	373,305
	$ 278,790	$ 294,293	$ 481,812	$ 480,527	$ 476,405
Accounts payable and other liabilities	$ 33,346	$ 35,507	$ 35,036	$ 36,069	$ 32,778
Other long-term liabilities	6,663	5,413	5,404	4,154	4,789
Long-term indebtedness	80,000	80,000	80,000	80,000	80,000
Unitholders' equity	158,781	173,373	361,372	360,304	358,838
	$ 278,790	$ 294,293	$ 481,812	$ 480,527	$ 476,405

Other Statistics

(000s except per unit amounts)	Twelve days ended December 31, 2001	Three months ended March 31, 2002	Three months ended June 30, 2002	Three months ended September 30, 2002	Three months ended December 31, 2002
Trading price range of units (TSX: "DHF.UN")					
High	$ 10.64	$ 11.20	$ 11.25	$ 12.13	$ 13.25
Low	$ 9.90	$ 10.11	$ 10.00	$ 10.45	$ 11.22
Close	$ 10.64	$ 10.51	$ 10.95	$ 12.10	$ 12.86
Average daily volume	266	149	176	165	139
Number of units outstanding at period end	17,235	18,955	37,921	37,921	37,921
Market capitilization at period end	$ 183,380	$ 199,217	$ 415,233	$ 458,842	$ 487,661

Corporate Governance

Davis + Henderson Income Fund has adopted corporate governance practices in accordance with the guidelines published by the Toronto Stock Exchange ("TSX"). The guidelines set out recommendations concerning responsibilities, composition, and practices of boards of directors and their committees.

Davis + Henderson's response with respect to each of the TSX guidelines on corporate governance is set out in the Fund's management information circular available on www.sedar.com.

Mandate of the Board The Board of Directors of Davis + Henderson G.P. Inc. (the "Board") has a written mandate which includes among the duties and objectives of the Board: the approval and monitoring of the strategic, business and financing plans of the Davis + Henderson business; succession planning for senior management; assessment of risk factors affecting the Fund; and ensuring the integrity of the reporting and information controls that enable the Board and the Trustees to function effectively.

Composition of the Board and Trustees The TSX guidelines recommend that the majority of directors be "unrelated" to the business. At present, there are three Trustees, and no Trustee is a member of management. Additionally, operations of the Davis + Henderson business are directed by the Trustees through the Board consisting of seven members. Five of the Board's seven members are unrelated, which means they are not members of management, and do not have any material interests or relationships with the business, the Fund or any of its subsidiaries. In addition, the chairman of the Board is not a member of management. Daily management of the Davis + Henderson business is performed exclusively by employees of the business.

Board Committees The TSX guidelines recommend that committees of the Board generally be composed of outside directors (meaning directors who are not employees of the business), a majority of whom are also unrelated. The committees of the Board of Directors of Davis + Henderson G.P. Inc. are comprised entirely of outside and unrelated directors. The chair of each committee is also not a chair of another committee or the chairman of the Board. Committees that have been established to date are:

Audit Committee Its mandate includes: monitoring of appropriate financial reporting process and systems of internal controls; monitoring the independence and performance of the external auditors; providing an avenue of communication among the external auditors, management and the Board; encouraging continuous improvement of and adherence to policies, procedures and practices of the business; and reviewing financial statements (both interim and year end) as well as related filing requirements and recommending such financial statements and filings for approval by the full Board.

Compensation and Corporate Governance Committee Its mandate includes: finding, recommending, orienting and educating new directors; reviewing executive succession planning arrangements; monitoring the performance and compensation of the senior management of the business; reviewing and approving corporate policies and procedures; reviewing all related party transactions; and assessing the performance of the Board and its directors.

Trustees and Board of Directors

Directors of Davis + Henderson G.P. Inc and Trustees of Davis + Henderson Income Fund:

Paul Damp
Chairman, Director and Trustee
Managing Partner, Kestrel Capital

Paul Damp was previously chairman of Architel Systems Corporation, chairman and CEO of Accugraph Corporation and president and COO of SHL Systemhouse Inc. and, prior to 1990, a partner at KPMG. Paul is currently a director of Kroy International and a trustee of Home Equity Income Trust.

Allan Gotlieb
Director and Trustee
Chairman, Sotheby's Canada and Senior Advisor, Stikeman Elliott LLP

Allan Gotlieb was chairman of Canada Council (1989 to 1994), Canadian Ambassador to the United States (1981 to 1989), and Undersecretary of State for External Affairs (1977 to 1981). Allan is currently a director of Hollinger Inc. and a trustee of the Art Gallery of Ontario, chairman of several foundations and a special advisor to several organizations.

Bradley Nullmeyer
Director and Trustee
President and CEO, A&A Capital

Bradley Nullmeyer was, prior to 2001, CEO Vendor Finance of CIT Group and, prior to 1999, president of Newcourt Financial.

Helen K. Sinclair
Director
CEO and Chairman, BankWorks Trading Inc.

Helen Sinclair was president of the Canadian Bankers Association from October 1989 to June 1996 and previously with The Bank of Nova Scotia. Helen is currently also a director of The Toronto-Dominion Bank, McCain Capital Corporation, Superbuild, the Canada Pension Plan Investment Board and Transat A.T. Inc. .

Gordon J. Feeney
Director
Corporate Director

Gordon Feeney was, prior to July 2001, deputy chairman of Royal Bank of Canada after joining the bank in 1959. Gordon is currently a director of the Finance Corporation of Bahamas, Moneris Solutions Corporation, Royal Mutual Funds Inc., Business Development Bank of Canada, International Survey Research Group, RBC Advisor Global Fund Inc., and Synergy Asset Management Inc.

C. Sanford McFarlane
Director and Officer
Chief Executive Officer, Davis + Henderson, Limited Partnership

Sanford McFarlane joined Davis + Henderson in 1975 and has been its CEO since 1992.

Robert Cronin
Director and Officer
President and Chief Operating Officer, Davis + Henderson, Limited Partnership

Robert Cronin has been employed by Davis + Henderson in his current capacity since 1996. Prior to this, he held senior management roles with several companies including SHL Systemhouse Inc.

Committees of the Board

The members of each committee of the Board of Directors of Davis + Henderson G.P. Inc. are:

Audit
Gordon J. Feeney (Committee Chair)
Paul Damp
Bradley Nullmeyer

Compensation & Corporate Governance
Helen K. Sinclair (Committee Chair)
Paul Damp
Allan Gotlieb

Executive Team

Sanford McFarlane
Chief Executive Officer

Bob Cronin
President and Chief Operating Officer

Chad Alderson
Vice President and Chief Technology Officer

Yves Denommé
Vice President, Operations

Suzanne Mandrozos
Vice President, Human Resources

Catherine Martin
Chief Financial Officer

Serge Rivest
Vice President, Sales and Marketing

Michael Schweizer
Vice President, Sales Effectiveness and Relationship Marketing

Joanne Sisco
Vice President, Corporate Data Services

Corporate Information

Auditors:
BDO Dunwoody LLP

Transfer Agent:
CIBC Mellon Trust Company

Corporate Counsel:
Torys LLP

Investor Relations:
Catherine Martin 416-696-7700
Email: Catherine.martin@dhltd.com

Corporate Office:
Suite 201, 939 Eglinton Avenue East,
Toronto, Ontario M4G 4H7

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Website: www.dhif.com

Toronto Stock Exchange Symbol:
DHF.UN

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"Davis + Henderson," "Custom Cheques of Canada," "Intercheques" and "eSwitch" are registered trademarks, and Cheque*Central* and Cheque*Advisor* are unregistered trademarks, of Davis + Henderson, Limited Partnership.

Annual Meeting

The annual general meeting of unitholders of Davis + Henderson Income Fund will be held at 4:00 p.m. on Tuesday, May 6, 2003 at the TSX Conference Centre, The Exchange Tower, 130 King Street West, Toronto, Ontario.

Copies of the Annual Report may be obtained from: The Secretary, Davis + Henderson Income Fund, 939 Eglinton Avenue East, Suite 201, Toronto, Ontario M4G 4H7.

Building on Core Values

Davis + Henderson has developed a set of strong core values over the years.

We believe that innovation and accountability are at the heart of our values – and go beyond delivering strong financial results to our unitholders. This includes being responsible to our customers, employees and the communities where we operate. Davis + Henderson's goal is to make a positive difference through our actions, from employee volunteerism and the charitable contributions that we make each year, to the products and services that we provide.

These core values align us with our customers, and our customers' customers, and make us a better employer, a better supplier and a caring contributor to our community.

As a business that operates nationally, we support charities and worthy causes across the country. We are particularly pleased to have been recognized by the United Way in each of the last 11 years with their ***Platinum Award*** *for participation.*

DESIGN: BRYAN MILLS GROUP WWW.BRYANMILLS.COM EDITORIAL: FUNDAMENTAL COMMUNICATIONS

Did You Know

> Davis + Henderson has been serving Canada's financial institutions since 1875

> In operating the cheque supply program for financial institutions, we provide products and services to 20 million account holders and more than 1 million small businesses on behalf of these institutions

> We process more than 11 million orders annually

> 8% of our orders came to us in 2002 via telephone or the Internet

> We provide call centre support in English and French to help our customers serve their customers

> Just under 50% of our revenue is derived from serving the small business sector – a growing segment for us

> To small businesses we provide cheques, deposit forms and bags, business cards and stationery, labels, wallets, binders and computer forms

> A significant portion of our revenues come from new bank account openings. In fact, about half of our revenue is independent of cheque usage

> We have licensing agreements with household names such as Disney, the NHL, Star Trek, Loonie Tunes, Anne Geddes and the Group of Seven, allowing consumers to "Express" themselves

> Annualized per unit distributions were $1.30 between January and June 2002 and $1.34 between July and December 2002, for a total of $1.32 per unit for this year

> We went public on December 20, 2001 at $10.00 per unit and, by December 31, 2002, our market capitalization was $487.7 million with a closing unit price of $12.86

Davis + Henderson Income Fund
Toronto Stock Exchange: "DHF.UN"
Website: www.dhif.com